RICHARD RUSSELL'S DOW THEORY LETTERS INCORPORATED

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June 16, 1999 **LETTER 1280**

THE PICTURE: Question: Why are we witnessing the remarkable picture of gold going down, bonds down, commodities down, and breadth of the market weak and going down?

Answer: The only answer I can think of is illiquidity -- the Fed is pumping but ironically they're not pumping enough. The lack of liquidity is basically deflationary. **The underlying trend of the global economy is basically deflationary.**

Question: If illiquidity and world deflationary forces are the problem, how is that we read that money is running like water in NYC and LA where real estate prices are going through the roof, restaurants are full, hotels are booked up, and look at the big stock averages? Is this illiquidity? Is this deflation? I don't think so.

Answer: New York and LA and selected gourmet restaurants are not the nation. These are specialized, atypical areas of the economy. By the same token the big 50 or 100 stocks are not the stock market. The big averages are the "show-pieces," but these averages have never been more deceptive than they are today (look at the A-D ratio for a better view of what's been happening to the average stock). As for the fabulous prosperity, it's very localized. Ask the farmers in the mid-West. Ask the locals 25 miles east of San Diego. Ask the people in the small towns of Texas or upstate New York or northern Florida. They're not whooping it up and basking in boom conditions. No, just as a narrow group of stocks are making the headlines, a narrow group of citizens are rolling in new-found wealth.

I believe markets. Gold is down, bonds are down, commodities are down, the breadth of the stock market is down. Something is wrong. All these items suggest illiquidity and underlying deflation.

THE MARKET: Personally, I don't like the market action. I don't like the low volume. I don't like the advance-decline action. I don't like the fact that the D-J Transportation Average on June 10 broke to a new low for the move. I don't like the long T-bond pushing over 6% (this with stocks yielding next to nothing). I don't like all the hype about "holding stocks for the long term." And I don't like the fact that losses are beginning to mount up. Finally, I note that market sentiment, subtly, is beginning to change. The white hot frenzy of the Internet IPOs and the urge to buy, buy, is beginning to temper just a bit.

But I want to be as coldly analytical and unemotional as I can be. The trend of the market (at least of the big averages) has been bullish. A trend will remain in force until it is reversed. We have no proof of a reversal, despite the suspect action. Therefore, I want to give the bullish trend every benefit of the doubt.

But here's my opinion. I believe the market is **stalemated on the upside**. I think the market will either **lapse into a trading range or head down.** Take your choice. Neither choice is that appetizing.

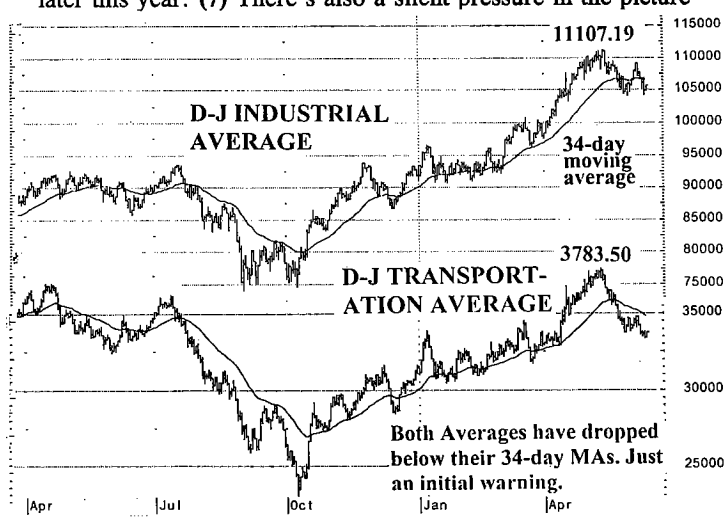
Let me put forth the trading range thesis. I think there's a reasonable chance that the market is doing something it hasn't done in a long time. And it's this -- the market could be forming

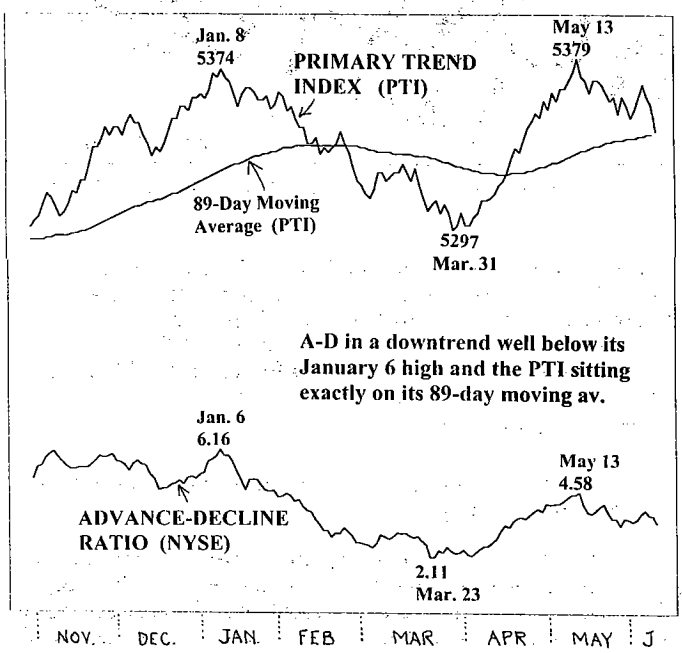
June 4 DJIA 10799.84; PTI 5361; A-D Ratio +3.76
June 11 DJIA 10490.51; PTI 5343; A-D Ratio +3.29
Dow Yield: 1.63%; Dow Price/Earnings: 25.5
Dow 144-day MA: 9807; Dow 34-day MA: 10797
Dow Times Book Value: 6.58; PTI 89-day exp. MA: 5343
Percentage of Undervalued Blue-chips: 5%
Gold 34-day MA: 275

a **trading range.** I'm going to take that stance unless or until the market proves me wrong.

Here's what I see as **bolstering the upside -- tending to pressure the averages towards the upper part of the range.** **(1)** Fed action (I don't give a damn about what Greenspan says, I look at what the Fed is doing). The fact is that M-3, the broad measure of the money supply, has been growing at the fastest rate in 16 years. **(2)** We got a reconfirmation of the primary bull trend on May 3 when the Transports rose to a record high. **(3)** On June 7 the D-J Utility Average hit a new record high. **(4)** My Primary Trend Index gave a bull signal on April 20 when it rose above its 89-day moving average; the PTI is still above its MA. **(5)** Many stocks that were sitting on critical support (MSFT, GM, GE, FNM) and could have broken down, have held above support. Watch GE to hold above 100. Watch MSFT to hold above 75. Watch MER to hold above 68. Watch GM to hold above 64. Watch AOL to hold above 100. **(6)** Money continues to pour into the market, much of it on automatic-mode via re-investment programs. **(7)** The dollar has been strong since last October.

The following **militate towards weakness -- tending to press the averages towards the bottom part of the range.** **(1)** The continued extreme bullishness of the public, which is steadily moving stocks into weak hands. **(2)** The continuing very poor performance of the advance-decline ratio. **(3)** The trend to higher prices, particularly in stocks, housing and cost-of-living items such as rent, movie, airline and sports tickets, restaurant prices, food items, medical, etc. The foregoing keeps pressure on the Fed to raise rates. It also keeps pressure on bonds. **(4)** The unsustainable distance of the major averages above their 200-day moving averages. **(5)** The "law" of regression to the mean, or the tendency of any item over the longer term to return and make contact with its long-term trend. **(6)** Downside pressure based on fears of what might happen when Y2K hits later this year. **(7)** There's also a silent pressure in the picture --





and it's the **minuscule yield** or even zero yield on most stocks (overvaluation). If the market does lapse into a trading range, stockholders will be sitting with shares that return literally nothing. It's one thing to hold a basket of stocks yielding say 0.5% when stocks are rising. It's quite another thing to sit with stocks that are locked in a trading range and at the same time provide literally no return.

Incidentally, and this is quite fascinating, subscriber B.F. of San Ramon, CA sent me this extended chart (bottom of page 2) of the ***Investor's Business Daily's*** **Mutual Fund Index** (which I've updated). The Index is an **average of 23 leading growth equity mutual funds**. Note that this Index has been in a **trading range** for many months; also note that the Mutual Fund Index is now actually below the peak recorded back in April 1998. This action must be frustrating to mutual fund owners, and it probably explains why mutual fund purchases have been declining over recent months while an increasing amount of money has been going into the purchase of individual stocks. (Incidentally, Davis Research notes that of 8,000 stocks, roughly 78% declined from April '98 through mid-April '99.)

With the money supply continuing to surge, the question is -- what has saved the nation from out-and-out, broad-based inflation? And the answer is -- depressed overseas economies plus massive new global production capabilities, capabilities that have generated fierce competition and served to keep pressure on commodities and most raw materials. On top of that, the bond market has been doing the timid Fed's work for it, in that the yield on the 30-year T-bond has climbed above the key 6% level.

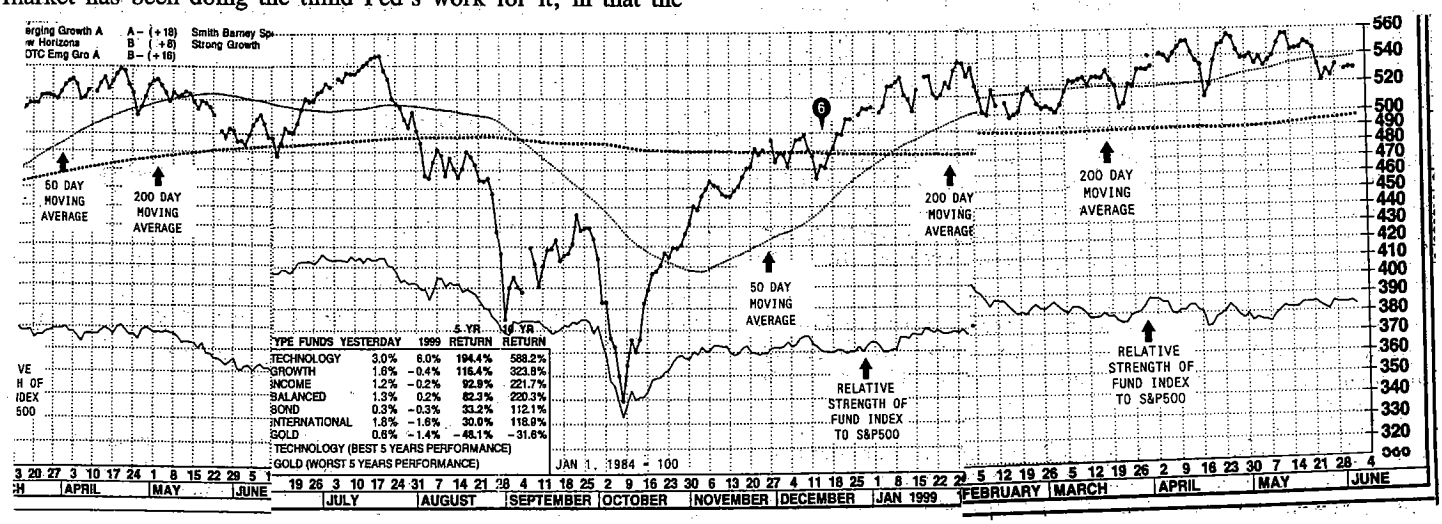
Conclusion: All the above, I feel, militate (at best) towards the formation of a trading range, a stand-off between the bullish and bearish forces. Now obviously, in due time something will come along to break this stalemate. But what that force is I can't tell at this time. I can only guess. My best guess -- consumers will halt their spending frenzy. What could cause them to cut back on their spending? (1) Y2K? (2) Sheer exhaustion of buying? (3) Higher rates? (4) Public decides to reduce their debt and save? (5) Fear following a stock market break? You pick 'em.

The Battle: One area of trouble that I see is what I call **"the coming worldwide battle for exports."** This is an area that subscribers should watch carefully. Every nation in the world wants to increase its exports (and so far, the place where their exports are going is -- the US). This process is driving the US negative trade balance through the roof. And with the strong dollar, overseas products look increasingly cheaper and more competitive.

Furthermore, with US interest rates now substantially above other overseas rates, the Fed will hesitate to push rates even higher, since a rate boost would put even further upside pressure on the already sky-high dollar. Higher US rates would result in either increased deterioration in the US trade balance, a further rise in the dollar, or both. This whole picture is one of **growing instability. And instability will ultimately lead to trouble in the stock market.**

WHAT ARE THEY WORTH? The "fair value" model for the stock market, reputedly used by Greenspan and the Fed, is as follows. Take the amount that stocks, specifically the S&P 500, are expected to earn in the next 12 months and divide this by the current interest rate on the 10-year Treasury note. That's an easy enough formula. Let's try it. The S&P is currently expected to earn 54.33 over the coming 12 months. Divide this by 5.96, the interest on the 10-year note, and you get 911 as fair value for the S&P 500. But the S&P is now at 1305. On the basis of this formula, the **S&P is 43% above fair value.** So far, the market doesn't seem to care. So far.

One of the techniques that bullish analysts use is the rate of change in future earnings. So let's take trailing earnings for the S&P -- which are 37.71. Figuring 54.33 earnings for the next 12 months, analysts are saying that earnings will be up 44% over the next 12 months. It's clear that the stock market, so far, has accepted that rate of growth in earnings -- 44%. But since the S&P is heavily weighted for big-cap stocks, that 44% increase does not apply to the many hundreds of medium-size and smaller stocks in the S&P 500. That may be why market breadth is so poor. The average stock just can't keep up with the growth capabilities of the big-cap stocks.



So what could change? One thing that could change is consumer sentiment, and, of course, a change in consumer sentiment can change consumer spending. Consumer spending constitutes two-thirds of the nation's Gross Domestic Product, so obviously, if something occurs to change consumer sentiment and spending, the growth-rate in earnings for stocks will change.

Another thing that could upset the analysts' predictions would be a sudden major and extended break in the stock market. A big market break would very likely frighten consumers and cause them to cut back on their spending. And that too could also change analysts' perceptions of the rate of growth in earnings. For instance, if analysts decided that instead of a 44% increase in earnings, earnings would be up only 10% or even (God forbid) flat, that obviously would represent a huge difference in the perception of what stocks are worth.

Remember, the **big swing-factor in stock prices is price/earnings ratios.** There have been times when earnings were rising strongly, but when price/earnings ratios (because of prevailing pessimism) remained low. We saw this during the late-1940s and early 1950s. There have been other times when price/earnings ratios were high even though the trend of earnings was lower as in 1990-92.

It's also well to remember that trailing earnings, or what stocks earned over the last 12 months, those earnings are fact. But what stocks will earn over the next 12 months -- that's speculation, that's thin air, that's what analysts are guessing, based on the thesis that events will continue in the future as they have progressed during the recent past.

INVESTMENT POSITION: The "smaller" bull remains in the box. Meaning that the major trend continues up -- until proved otherwise. And so far, despite a lot of things that I don't like about this market, we've got nothing yet to prove that the major or primary trend has reversed. Thus, the little bull.

It wasn't easy -- with a period of over a year in which the Transports refused to confirm new highs in the Industrials, and with the bear signal of August 4, I thought the tide had turned. Wrong. On May 3 the Transports finally advanced to a new high, thereby belatedly confirming the Dow.

So what's wrong now? Just that stocks are chronically overvalued. Stocks (I'm talking about the Dow and the S&P 500) are priced higher than they have at any other time in history. Currently, investors (and I hesitate to call them investors) are paying 78 dollars for every dollar of S&P dividends. A normal or average rate would be 25 dollars for every dollar of S&P earnings. At bear market bottoms we've seen investors pay as little as 15 dollars for every dollar of S&P earnings.

The essence of Dow Theory is an **understanding of values.** And that's what bothers all us old-timers, men and women who have seen what can happen to stocks when they return to or even go below known values.

OK, Russell, you think stocks are drastically overvalued. So what do we do now? First, read "Rich Man, Poor Man" on the home page of my web site www.dowtheoryletters.com. Then put your money in something that is defensive, something that will tend to hold up if conditions change. My personal choice is US Treasury paper, which now provides yields well above 5%. To me, it's no great hardship collecting say 5.5% on nearer-term Government paper. At 5% money doubles in 14.4 years. At 6% money doubles in 12 years. I'm in no hurry. But I am very adverse to losing money in over-priced stocks.

Russell advice. Check your greed. Check your desire to get rich quick. Place your money in two- to five-year Treasury maturities. Then sit back and watch the show. Relax. Avoid stress. Read the *New York Times* or the *Wall Street Journal* or even a good book. Make money on your job and squirrel it away in T-notes and wait for attractive prices in the stock market. They'll come. They'll come as surely as night follows day. Patience and discipline is what's needed here. Live a little. Enjoy the NY senatorial elections. Stay out of the sun. See "Election," a good movie. Learn to use a computer. Get spiritual. Enjoy life. Read the current *Newsweek's* cover story on STRESS.

NOTES & QUOTES: Signs of the times: I just went through *Value Line's* vaunted "Highest ranked #1 stocks for relative performance over the next 12 months." There are 100 stocks listed. I counted 64 of them with no (zero) dividends. Thirty had dividend yields of below 1%. The rest offered yields of 1% to 2%. So for any return when you buy these beauties, you had better pray for capital gains.

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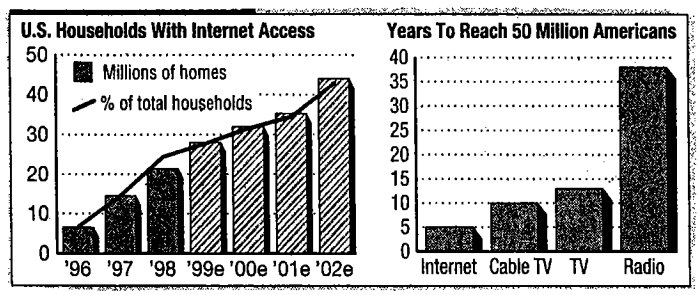
This chart from *Investor's Business Daily* shows how fast the Internet is hitting and how rapidly it's affecting our lives. There's been nothing like it, ever. One of the major problems generated by the net is copying. As soon as something new comes along, there's a rush to copy it. This has to do with books, music, furniture (designs), CDs, you name it. All this, it seems to me, makes it increasingly difficult to generate profits. The real way the Internet is going to affect us has not emerged yet, at least not in my opinion. But in the next year or two I think the "secret" will out.



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Problems? Amazon's stock is down from an April high of 221 to last week's 100. The stock is 100 bucks under where it needed to be for the company to call its $1.25 billion convertible bond. In July AMZN has to make a first payment on the bond -- $24 million (in cash, not paper). Cash, remember that word, cash, cash, cash. How many of the net stocks are generating cash?

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When you've been in this business for 20 or 30 years you learn to be very wary of the conventional wisdom. For instance, a month ago conventional wisdom had it that Russia's Yeltsin was finished. Yeltsin had fired his prime minister, fought impeachment, and seemed to be going completely out of control (rumors of a bad heart and drunkenness abounded). So what happened? Yeltsin sunk the Duma, easily beat impeachment, got approval for his new prime minister -- and he was off on a vacation. Yeltsin, it seemed, was very much in control.

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What are some of today's current or recent conventional wisdoms? Young Bush will be the Republican presidential candidate. Hillary will sweep the Jewish, black and Latino vote in New York and might very well be the next junior senator from NY. Al Gore is a shoo-in to be the Democratic presidential candidate. The stock market may correct, but there will be no

primary bear market. The US economy will continue to do well for the rest of 1999 and into the millennium. And only a few months ago the conventional wisdom was that the euro was going to be tough competition for the dollar. That was just before the euro's collapse.

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An ominous article appeared in the Op/ed section of the June 1 *NY Times*. It was written by Ion Mihai Pacepa, the highest ranking intelligence officer ever to have defected from the Soviet bloc. Some excerpts: "Should Russia's leaders now enter a strategic alliance with China, they would together constitute a clear and present danger to America's national security. The scenario appears ever more likely: China's leaders make no secret of their enmity for the US, and Russia and China are increasingly taking the same side on such issues as sanctions against Iraq and the war in Kosovo. Indeed it is no exaggeration to say that we may be headed towards a renewed Cold War and nuclear arms race. Thus, the real significance of current NATO efforts in the Balkans. Politicians and commentators who carp that the US has no national interest in Kosovo and urge a negotiated settlement fail to see the conflict for what it has become: a test of Western military resolve. Anything short of a quick, decisive victory will only embolden the men in the Kremlin to act against us."

* *

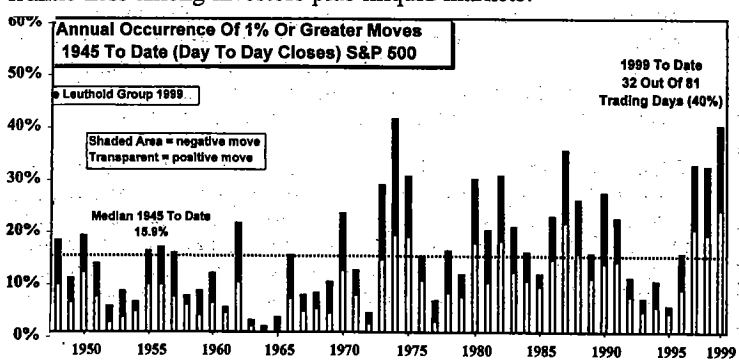
Value Line lists the largest-cap US corporations as of mid-May, but caution, this can change overnight. At any rate, here are the biggies: MSFT -- $461 billion, GE -- $331 billion, Intel -- $189 bils., Wal-Mart -- $189 bils., XON -- $172 bils., Merck -- $171 bils., IBM -- $164 bils., Pfizer -- $158 bils.; Coke -- $157 bils., and T -- $149 bils.

* *

Study this item. Is this to be the future of Argentina? The Argentines are discussing the idea of "dollarization," or making the dollar the currency of Argentina. Right now, 56% of Argentine bank deposits are denominated in dollars as is the bulk of Argentine debt and most long-term contracts, including rental agreements and mortgages. So why not just go to dollars?

* *

How volatile is the US stock market? Steve Leuthold of *Perceptions for the Professional* [(612)332-1567] shows this chart going back to 1945. The chart shows occurrence of 1% or greater moves in the S&P to mid-May. So far, 1999 is near a record high, although 1974 was huge. I think 1933 was probably the year of greatest volatility. Years of massive volatility seem to be a product of dramatic change in the market. High volatility, in my opinion, reflects major differences of opinion among investors. High volatility also indicates a certain amount of frantic-ness among investors plus illiquid markets.



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Stayin' Alive: A study (*NY Times*, June 1) shows that the number of people **over 100 years of age** is now surging. There are 50,000 centenarians today, compared to almost none at the turn of the century. Furthermore, the study shows that these oldsters tend to be surprisingly healthy. The study showed that of 167 centenarians who were extensively studied, only three have had cancer. A disproportionate number of the centenarians were women who never married. No patterns of diet or exercise appeared; some are vegetarians, some eat lots of red meat, some are athletes, some do nothing strenuous. The only trait all subjects seems to share was an **ability to manage stress well.** All had experienced the same kind of stress that most people tend to go through, but the oldsters seemed to have bounced back very well. About 80% of the centenarians are women. But the 20% who are men are healthier than the women. Among women who are mothers, a disproportionate number had children when they were in their 40s. Medical expenses, which peaked for those people 60 to 85, dropped for those 85 to 105. It seems that if you can make it over 85, you are pretty tough, pretty healthy.

Another study (same *Times* issue) shows that "for good health, it helps to be rich and important." This article refers to a study of 17,530 male civil service men in Britain. Researchers were "astonished to discover the mortality rates varied continuously and precisely with the men's service grade: the higher the classification, the lower the rates of death, regardless of cause . . . Stress, or other aspects of psychological life, can have an impact on a person's vulnerability to disease . . . Prolonged exposure to stress, researchers found, can lead to abnormalities in immune function and glucose metabolism and destroy brain cells involved in memory."

OK, why I am including all the above? Because, dear subscribers, it underscores what I've been saying for years -- STRESS KILLS. And that thesis has a lot to do with investing. After all, what profitith a man if he makes big bucks and dies at age 55? So here's what I'm saying -- trying to beat the market, particularly on a daily basis, is very stressful. Holding stocks through a bear market is extremely stressful. Buying stocks which have no dividends (unless those stocks continue to rise) is stressful. Going on margin is stressful. In my opinion and experience, there's only one way to invest with minimum stress. And that way is by buying sound income producing stocks and bonds and compounding those securities over the years. I've recommended this procedure over the 40 years that I've written these Letters. **Compounding is the royal road to riches.** Now I'll amend that statement: Compounding is the royal way to riches with a minimum of stress.

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The "beat the market" ads are becoming flagrant. Here's one that just appeared in a leading newspaper. It runs, "How would you like to: (1) Buy a stock today. (2) Sell it for a solid profit in 5 days. (3) Repeat this again and again for the rest of your life." This ad is ridiculous on the face of it. If the author could do this, why would he want to sell his formula to the public? If he could do this, he would make a fortune on his own, and the last thing in the world he would want to do is disclose his technique to the public -- at any price. The sheer number of flagrant ads suggest that a greedy, naive public is far too obsessed with trying to beat the market, getting rich quick with no stress and no pain.

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Well subscribers evidently like my daily website. Sample e-mails received one day last week: "I absolutely love the updates each day and I am over 50. If you added your common sense items ('notes and quotes') to the web I'd like it even more." Another: "Your web page is great. How can you write such a column every day? Stay healthy." Another: "I am enthusiastic about your daily commentary on your website. The absurd prices people have paid have pushed the stock market and real estate to levels that are unbelievable." Another: "I love the Dow Theory Letters, and especially the opportunity to benefit from your wisdom on a daily basis. It makes these incredible market gyrations easier to stomach." Another: "I very much appreciate

your daily comments, which I regard as the most important market information available on the Internet." Another: "I have been a subscriber of yours since Marty Zweig stopped publishing. Love DTL and was ecstatic when you began publishing on the web. Your's is the first site I check every day." Another: "Just a note to let you know how much I enjoy and look forward to reading your comments on the web every night. I don't think I have missed an issue yet. Can't understand why all of your readers are not hooked up yet and receive your comments every night. Computer shy?" **My comment:** I can't understand it either. Inertia? Fear? Complacency? C'mon, get on the net. Everybody likes it. It's newsy, it's informative, it's what's happening -- and my site is free to full-term subscribers. Finally, if you are having trouble getting on the website, you can call here [(619)454-0481] and receive instructions from our resident computer maven, Lynn ("helper-lady") Hunter.

* *

Comments: Competition keeps intensifying in the brokerage business -- and in every other line of business. This is all basically long-time deflationary . . . Thankfully, the NYSE has put off evening trading for at least another year. My opinion: forget about more hours. Doesn't anyone want a life? To me, adding a few more hours of trading just means less time with your family, less time to relax, no closure to any market day. It's greed, greed, greed. And it's killing a lot of people.

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Around the year 1900 there were fewer than 1500 bison in the US. But due to the sales of low cholesterol bison meat, herds now number over 250,000 and they're growing at the rate of 20% a year. Ranchers are currently producing more bison meat than the public will buy, so the Agriculture Dept. has announced a subsidy of $6 million to help out the ranchers (the Ag. Dept. will buy surplus meat at $3.45 per pound). This will be a big help to billionaire rancher Ted Turner, who raises 17,000 bison on 1.4 million acres of land in ranches from Montana to New Mexico to Nebraska. Said Libertarian Party National Director Steve Dasbach, "It's a pathetic sight, a billionaire like Ted Turner with a tin cup in hand, begging for hand-outs from the taxpayer." **Russell Comment**: I've eaten buffalo-burgers and they're darn tasty. And what the heck, if Teddy wants pocket change for raising all those beautiful buffs, well, let the poor guy have it. (Note: According to the *National Enquirer*, Ted and Jane Fonda are splitting. Jane can't take Teddie's roving eye and his obsession with business rather than home life.)

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Economist Ed Yardeni, chief economist for Deutsche Bank Securities, is the guru of Y2K. In an interview in *Investor's Business Daily* (June 2) Ed said, "I'm less concerned about the federal government or the national electric power grid and phone system. I see signs of good progress being made by corporate America. My biggest concerns are that problems overseas could seriously disrupt the global just-in-time manufacturing system, triggering recession. It could stop the delivery of key materials -- everything from ball bearings to logic chips for ignition systems -- that are necessary to assemble cars, computers, machine tools and jet aircraft . . . I'm most concerned about global banking and global manufacturing. If we can't get ball bearings from Brazil, if we can't get semiconductor chips from Taiwan, and that forces us to cut back on production, some of the companies in those chains could be under tremendous financial distress. Their cash flow won't be there to sustain them. Banks may find that they're dealing with more non-performing borrowers. So there's lots of risk in those two sectors because they're most exposed to the global economy." **Russell Note:** Yardeni's been in the forefront of those warning about the dangers of Y2K. He has an excellent web site: www.yardeni.com.

Russell Comment: To my mind, Y2K may come down to "the weakest link." For instance, if one major bank runs into trouble, with all the banks interconnected, there could be a monumental banking mess. Also, many outfits and government agencies who claim they're compliant may find out that they have glitches and that in reality they're not compliant. The real test, the only test, will come when the millennium finally comes around.

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It looks increasingly as though Hillary will run for the Senate in NYC. Democrats are having fits about this (the GOP loves it), because the thinking is that Hillary will suck money away from Al Gore's money chest, and her battle will deflect attention from Al Gore's run. Furthermore, the thinking is that the American public is sick of the Clintons and Hillary's run will just bring up all the Clinton dirty water, and of course, it will also highlight Gore's close connection with the Clintons. Why is Hillary running at all, particularly in a state that she has had nothing to do with? Answer: Winning in NY would confirm that the public still accepts the Clintons. And of course, winning as a Senator would put Hillary in line for a run at the presidency. Writes Paul Gigot in the June 4 *WSJ*: "Her candidacy is a monumental act of political vanity that raises the stakes in 2000 even higher than they already are. And it fits the strategy of the past, when her husband has put victory in 2000 above any second-term accomplishment. It also puts her own fortunes above her party's, but that's always the way with the Clintons. The party, c'est moi . . . The Clintons had better hope that Americans, especially New Yorkers, don't begin to view them as house guests from Arkansas who entertained us but grew tedious, and now refuse to leave."

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Michael Bloomberg, the financial power-house who owns Bloomberg's black boxes, TV, and magazine is worth around $2 billion. In an interview in *Yahoo* magazine, Bloomberg replies to a question about the stock market, "I continue to note that most people have not benefited from the soaring market. Most people are invested in mutual funds, and the funds are lagging dramatically behind. But that's OK. People may forget this in a time of soaring market, but I still think there isn't any free lunch. Maybe I'm wrong this time, but I don't think so. Most people have to go out and work hard for a living and make it in slow nickels rather than quick dimes. That's just the way it is. I worry these days that everybody seems to want something for nothing. Not everybody, but many. In our company, we're not involved in any of this financial engineering. We're just trying to generate revenue greater than our expenses, and create jobs, and continue to invest in the future. Long-term, we'll do fine. If others do as well or better, so what? It's good to keep perspective, whether it's about your company or your personal finance . . . I'm uncertain about the business model of many of the Internet companies. They either give away information and hope for traffic and revenue from the advertising or hope to earn a small commission from electronic commerce. Whether or not that model works divides those who think that Internet stocks are great investments and underpriced from those who think they over overpriced . . . I worry that most Internet companies have very low profit margins -- and an enormous amount of competition, so their margins will get even lower. The competition is great for consumers, who get a better deal, but I don't see how most of these companies will ever make an appreciable amount of money." **Russell Comment:** This is one smart guy, and his observations are worth thinking about.

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A subscriber sent me the following astounding revelation. He notes that they have finally released the ingredients in Viagra: 2% aspirin, 2% ibuprofen, 1% filler, 95% "fix-a-flat." **Russell Comment:** Gosh, I can mix that myself.

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Latest count for GOP presidential candidate: Bush -- 46%; Elizabeth Dole -- 14%; Dan Quayle -- 9%; Buchanan -- 6%, Forbes -- 5%. Russell opinion: I like Forbes. I can't understand the fervor over Bush. Forbes has the brains, the ideas, the courage.

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New York magazine notes that there are only six more months until the millennium. And New York, the center of the known world (how could I have ever left Gotham?) is preparing for the celebration of the century. The New York Tourist Bureau expects one million fun-seekers to hit the big city for the New Year's weekend. Most hotels are already sold out. Those that are not

are charging up to triple the regular prices and require you to stay for three to five days. For the festivities, the Rainbow Room offers seats for $6,000 a couple. All 2000 suites at the Marriott Marquis are booked. The Four Seasons is auctioning off one of its last remaining accommodations, the Presidential Suite. Bidding starts at $75,000. For those with children, the rate for nannies on the big weekend has jumped to $25 per hour. At 21 restaurant, a hand-picked group of guests will pay $21,000 a head to usher in the New Year at the restaurant's Wine Cellar - they'll then be whisked off in a private jet for further festivities to hotels in New Orleans and the Caribbean for another nine days of fun. At the Plaza's Millennium Ball, $5,000 will get you to the party. At the Javits center, a $1,000 ticket will buy you a buffet dinner plus a concert with Sting, Tom Jones, Aretha Franklin and others. And so on. New York should be raining dollars when the Millennium hits (assuming, of course, that the stock market holds up). Finally, the winner, nation-wide, for the entire fun-fest will probably be Barbra Streisand, who will be paid an unprecedented $13 million to perform two shows at the MGM Grand in Las Vegas (tickets for the show will go for $2500). Las Vegas, by the way, still has rooms available for $1000 to $3000 a night. Disneyland, a favorite location, is sold out. Here's an item -- Madonna turned down an insulting $1.5 million to play for an Indian at his family's private compound. What's Richard Russell going to do for New Year's eve? Mmmm, I think I'll go to my favorite Chinese restaurant and have egg drop soup and maybe spicy vegetables. I'll probably skip the fortune cookies.

By the way, if you really want to eat at a top NY restaurant, there's one fairly sure way to do it. Eat early. Most New Yorkers feel it's an embarrassment to eat before 8PM. Personally, I like to finish dinner before 5:30. To dine at 8PM, finish dinner at 9:30 or 10 and then hit the sack an hour later means that you're going to bed on a full stomach, in which case you have the rest of the night to fully absorb all that food. Ugh. So my suggestion to people who are interested in the food rather than just being seen -- call for an early reservation (most restaurants open at 5 or 5:30 for dinner). Wife Faye on a recent trip to NYC got into the famous Le Bernadin at 5:30 with a reservation made only two days before. Hint: Eating early gets you good service (there aren't many other people in the place), you avoid the later noise, and you can even (if you wish) have a friendly chat with your friendly waiter (after 8PM NY waiters turn snooty). Diner: "Waiter, do you have the time?" Waiter: "Uh, sorry, that's not my table."

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Speaking of restaurants, for you subscribers who may own a restaurant, the item on the right (from *Forbes*) may be of use:

AT LEAST 92 restaurants in Luoyang, China, were shut down in August after they had been found by government inspectors to have been inserting opium pods and seeds into their dishes to addict customers to their food. Almost one ton of pods and seeds was confiscated. Officials became suspicious when they saw long lines of people waiting to get into some restaurants while neighboring restaurants were empty.
-CHUCK SHEPHERD,
"News of the Weird"

GOLD: Behind the seeming quiet, dribbling action in gold, events are stirring. Assertions of gold manipulation are being heard. Lawsuits are being instituted. The anti-trust law firm of Berger & Montague have been retained by the Gold Anti-Trust Action group (GATA) to pursue accusations of illegal manipulation. The Internet carries the news on www.gold-eagle.com (see "editorials") or www.tocqueville.com.

There's been a carry trade in yen and gold. Participants can borrow gold at bargain interest rates, sell the gold on the open market, which drives the price of gold down, then take the proceeds and invest it at a higher rate of return such as in US T-bills. Of course at some point all this borrowed gold must be returned. That's when we could see some fireworks.

The 200-day moving average of gold is now at 293. August gold is 262. That means gold is roughly 10% below its MA -- indicating that gold has dropped "too far" below its moving average. A rally is long overdue, and on Friday gold was actually up over two bucks (when's the last time that happened?)

The Russell Opinion: Sorry, conspiracy-fans, but I continue to take the gold action at **face value.** I think the absurdly "cheap" gold price is telling us that there's trouble ahead, and that trouble is illiquidity and deflation. How could that possibly be? It could be if the stock market takes a dive. If that happens, consumers will halt their buying frenzy, the "wealth effect" will fade, and debt will loom like a giant specter. **Debt is the hidden monster here.** Consumers and corporations are swimming in debt. Go into recession and the mountains of debt will give you deflation you won't believe. Is this what deflated gold is telling us?

LATE NOTES: I'll admit that I'm frustrated because so far only 3200 out of 7000 subscribers are on my web site. The reason I'm frustrated is that I deal with items on the daily web site that I just can't deal with in the bi-weekly Letter. Those who are not on the daily site miss this information. And since I put a lot of energy into these daily reports, the fact that less than half of my subscribers get these valuable free reports is, well, it's frustrating.

For instance, I run what I call my Big Money Breadth Index (BBI), which is an advance-decline of the 10 largest-cap stocks in the S&P Composite. Since the big-cap stocks have been the main force in this market, I feel it's critical to know what the majority of these "big ten" are doing. That's what the BBI shows, and I give the **latest daily figures on my net report each day.**

With the 30-year T-bond yielding over 6%, the excitement and frenzy seems to be draining out of the stock market. It takes real guts and bullish faith to buy stocks yielding next to nothing when you can get a guaranteed over-6% (free of state taxes) in bonds. And the market obviously senses this as volume simmers down, as the upside for stocks becomes more labored, as buyers cut back on mutual fund sales, and as market breadth in all areas slowly but persistently declines.

On Friday, June 11, my Big Money Breadth Index broke to a new low for the year. On the same day the Dow advance-decline line for the 30 Dow Industrials sank to a new low for the year. And again on the same day my Primary Trend Index dropped down to sit exactly on its 89-day exponential MA.

So breadth across the board -- in the Dow, in the Big Ten, on the entire NYSE is sinking, sinking. And that's not good. It seems the water is slowly but relentlessly running out of the market bathtub.

What I notice now is, whereas a few months ago the Dow would zip up 100 points almost effortlessly, the Dow and the S&P now seem to labor on the upside. This tells me that the big buying has ceased to come in. Buyers are much more reluctant to buy.

Investor's Business Daily runs (daily) what they call their Mutual Fund Index, which is an average of 23 leading growth equity mutual funds. As of Friday's close (June 11) the Index was up only 3.6% for the year, and the Index is now below its 50-day moving average. Any further market weakness and this Index will show zero growth for the funds in 1999.

I feel that the bonds are now quite sold-out, and that they have already discounted any Fed action. If the economy is ready to slowdown (or even, God forbid, if there's recession in our future) the Treasuries could now be basing, preparatory for the start of a major advance.

NEXT MAILING: June 30, 1999